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C O N F I D E N T I A L SECTION 01 OF 02 ASHGABAT 000357

SIPDIS

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DEPARTMENT FOR SCA (JGASTRICH) AND EUR (MBRYZA)

E.O. 12958: DECL: 04/05/2016

TAGS: ENRG PREL CH TX

SUBJECT: NIYAZOV'S TRIP TO CHINA: TURKMENISTAN SIGNS DEAL
ON GAS WITH CHINA

Classified By: Amb. Tracy A. Jacobson for reasons 1.4 (b) and (d).

Summary

¶1. (C) During Niyazov's visit to China, Turkmenistan and China agreed to build a natural gas pipeline by 2009 between the two countries, and for Turkmenistan to sell 30 billion cubic meters of gas to China annually once it is completed. The agreement includes joint exploration and development of gas fields on the right bank of the Amu Darya River as part of the product sharing agreement (PSA), the first time the GOTX has agreed to a PSA in gas production. China is responsible for financing the pipeline and negotiating the pipeline route through neighboring countries; preliminary discussions with Uzbekistan and Kazakhstan were not conclusive. Such agreements are not always seen as binding by the GOTX. The deal contains no solid pricing information; the Chinese Ambassador told us previously Niyazov's current high demands (\$150/tcm) would preclude pipeline construction.

Given the lack of concrete financial arrangements, we could expect the GOTX to say at some later date that the agreement is a non-binding expression of intention, rather than a commercial contract, should a better offer come along. End Summary.

Niyazov Goes to China

¶2. (U) As part of an official visit to China, President Niyazov and Chinese officials signed an agreement on April 3 to build a pipeline transporting Turkmenistani gas to Western China, according to press reports and poloff's conversation with Chinese Embassy First Secretary Deng Hao. The deal also calls for the joint exploration and development of natural gas fields on the right bank of the Amu Darya River and for Turkmenistan to sell China 30 billion cubic meters of gas a year following completion of the pipeline in ¶2009.

¶3. (C) Deng told poloff on April 5 that Turkmenistan first broached the idea of a Turkmenistan-China pipeline several years ago. However, China was concerned about the quantity of Turkmenistan's gas reserves and was reluctant to build a

pipeline. Deng said that joint development of Amu Darya gas fields was the key to overcoming these concerns, and admitted that China does not know if these fields are sufficient to supply the yearly 30 billion cubic meters of gas. However, the GOTX is committed to diverting gas from other fields to make up any shortfall.

Uzbekistan and Kazakhstan Consulted

¶4. (C) Deng said that while China is optimistic about the agreement, which he characterized as a "framework agreement," the Chinese government understood much work remained both with the GOTX and countries along the proposed route. In particular, the pipeline route must still be determined and agreements worked out with the countries though which it will run, i.e., Uzbekistan and Kazakhstan. Deng added that the PRC had conducted preliminary discussions with Uzbekistan and Kazakhstan. He said that he expected Uzbekistan to be a particular problem because of its poor relationship with Turkmenistan, and because of the current "instability" in Tashkent.

Comment

¶5. (C) A pipeline to China would provide the GOTX with an alternative to Russia for getting its natural gas to market; and perhaps an alternative more palatable to Russia than a Trans-Caspian (TCP) or Tran-Afghan pipeline (TAP). While the GOTX is hailing the deal, it is noteworthy that the gas eventually flowing through it may be the GOTX's only contribution. In addition to being entirely responsible for construction and financing, the Chinese also will negotiate

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the pipeline route with Turkmenistan's less-than-friendly neighbors. Because the gas fields under consideration for a Chinese pipeline are different than those being considered for the TCP or TAP, a deal with China does not necessarily close down prospect for either.

¶6. (C) As we have seen with other such deals (including one on sales to Iran, approved by the President one month and unilaterally abrogated the next) the GOTX sees these agreements as expressions of political intent rather than commercial contracts. We believe it unlikely that China will commit serious resources to actual pipeline construction without a clearer understanding of pricing potential and the quality and quantity of Amu Darya gas. End Comment.

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